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April 14, 2006

AGENDA ITEM 4

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Financial Statement Auditor: Non-Audit Services
- II. PROGRAM:** Audits
- III. RECOMMENDATION:** Staff recommends Finance Committee approval for the Board of Administration's independent financial statement auditor, Deloitte & Touche, to perform non-audit services related to CalPERS' Fiscal Services Division Accounting Action Plan 2006.

IV. ANALYSIS:

Fiscal Services Division's Accounting Action Plan 2006 includes hiring a contractor to document and evaluate its internal control policies and procedures. Staff recommends CalPERS' independent financial statement auditor, Deloitte & Touche, perform this audit related activity because of its familiarity with Fiscal Services operations. Furthermore, such services are authorized in the Finance Committee Charter¹ which permits the auditor "To make recommendations to management on internal control structure, risk management and/or accounting policies as a result of performing the other allowed services." Internal audit staff has reviewed the scope of work with Fiscal Services and Deloitte & Touche to ensure these non-audit services will not create a conflict of interest for the Board's independent auditor. All non-audit services require pre-approval by the Finance Committee.

Consistent with the Finance Committee Charter², the Chair authorized preliminary pre-approval of these services to begin discussions with Deloitte & Touche to plan the work. The Finance Committee was appropriately notified of such pre-approval at its March meeting.

¹ Finance Committee Charter, Attachment A, Section II, entitled Services that the External Auditor is Allowed to Perform, Item 7.

² Finance Committee Charter, Attachment A, Section IV, entitled Finance Committee Approval of Services by the External Auditor.

CalPERS' existing contract with Deloitte & Touche includes a provision to perform audit related services and allocates an amount equivalent to 20% of the financial statement audit for such services annually. To date, Deloitte & Touche has not performed non-audit services encumbered under the existing contract. Staff recommends performing this work through the existing audit contract with Deloitte & Touche. The scope of work for these non-audit services shall not exceed \$300,000

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan, but assists the Board of Administration in fulfilling its fiduciary role in the Finance Committee Charter, Section III, Purpose:

"Serving as an objective and independent party to monitor CalPERS' financial processes and internal control system,"

VI. RESULTS/COSTS:

This item will result in Deloitte & Touche performing audit related services in connection Fiscal Services Accounting Action Plan to review and document CalPERS financial processes and internal control system.

The cost of the services proposed in this item is currently encumbered under the existing contract with Deloitte & Touche.

Larry Jensen, Chief
Office of Audit Services

Peter H. Mixon
General Counsel